

**STATE OF NEW HAMPSHIRE**  
**INFORMATION STATEMENT SUPPLEMENT**  
**DATED DECEMBER 12, 2002**

*The following information is provided by the State to supplement the information contained in the State's most recent Information Statement dated August 14, 2002 (the "Information Statement"). The Information Statement is included as Part II of the State's Official Statement dated August 14, 2002, which is available on the New Hampshire Treasury Department website as the document entitled "New Hampshire State Treasury Official Statement – 08/14/02" at <http://webster.state.nh.us/treasury/Divisions/DM/DMdocs.htm>. The headings set forth below correspond to the same headings in the Information Statement. This Information Statement Supplement (the "Supplement") only sets forth additional information concerning the matters described below as of the date of this Supplement and is subject to change without notice.*

**STATE GOVERNMENT**

**Executive Branch**

On November 5, 2002, Craig R. Benson was elected Governor of the State. He will take office on January 9, 2003. Michael A. Ablowich, currently the Commissioner of the Treasury, was elected State Treasurer by the Legislature on December 4, 2002. He will take office on January 8, 2003.

**STATE DEMOGRAPHIC AND ECONOMIC DATA**

**Civilian Labor Force, Employment and Unemployment**

The State's civilian labor force for October 2002 was 711,000, of which 680,000 were employed and 31,000 were unemployed. The unemployment rate for October 2002 for the State was 4.4%, as compared to 4.5% for New England and 5.3% for the United States.<sup>1</sup>

**Utilities**

The sale of the Seabrook nuclear power station was completed on November 1, 2002. Florida Power and Light is the new owner and operator of the plant.

**STATE FINANCES**

**Fiscal Year 2003 Budget**

*Revenues.* The following table compares on a cash basis, for the five months ended November 30, 2002, General Fund and Education Fund unrestricted revenues for the fiscal years 2002 and 2003 and a comparison to the revenue estimates for fiscal year 2003. The revenue estimates reflected in the plan are based on those revenues defined in Chapter 130, Laws of 2001, the State budget law for Fiscal Year 2003. Due to the combined filing of the business profits tax and business enterprise tax, it is not possible to measure accurately the individual effects of each of these taxes. They should be evaluated in their entirety. All information in this table is preliminary and unaudited.

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<sup>1</sup> Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Division.

**GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES  
FOR THE FIVE MONTHS ENDED NOVEMBER 30, 2002  
(Cash Basis-In Millions)**

Revenue Category	FY02 Actual	FY03 Actual	FY03 Plan	FY03 vs Plan		FY03 vs FY02	
				Variance	% Change	Variance	% Change
Business Profits Tax	\$39.8	\$43.2	\$67.9	\$(24.7)	(36.4)%	\$3.4	8.5%
Business Enterprise Tax	<u>62.7</u>	<u>63.8</u>	<u>49.2</u>	<u>14.6</u>	<u>29.7</u>	<u>1.1</u>	<u>1.8</u>
Subtotal	102.5	107.0	117.1	(10.1)	(8.6)	4.5	4.4
Meals & Rooms Tax	82.6	86.1	94.7	(8.6)	(9.1)	3.5	4.2
Tobacco Tax	38.2	39.9	37.1	2.8	7.5	1.7	4.5
Liquor Sales and Distribution	41.7	43.6	42.3	1.3	3.1	1.9	4.6
Interest & Dividends Tax	16.1	12.5	16.1	(3.6)	(22.4)	(3.6)	(22.4)
Insurance Tax	25.8	21.6	16.7	4.9	29.3	4.2	(16.3)
Communications Tax	24.6	26.6	29.7	(3.1)	(10.4)	2.0	8.1
Real Estate Transfer Tax	45.5	54.3	45.8	8.5	18.6	8.8	19.3
Estate and Legacy Tax	29.4	23.4	22.9	0.5	2.2	(6.0)	(20.4)
Transfers from Sweepstakes	26.7	19.0	22.0	(3.0)	(13.6)	(7.7)	(28.8)
Tobacco Settlement	0.3	-	-	-	-	(0.3)	(100.0)
Utility Property Tax	4.6	4.8	5.1	(0.3)	(5.9)	0.2	4.3
Property Tax Not Retained Locally	-	-	-	-	-	-	-
Property Tax Retained Locally	-	-	-	-	-	-	-
Other	<u>43.6</u>	<u>48.3</u>	<u>43.5</u>	<u>4.8</u>	<u>11.0</u>	<u>4.7</u>	<u>10.8</u>
Subtotal	481.6	487.1	493.0	(5.9)	(1.2)	5.5	1.1
Net Medicaid Enhancement Revenues	<u>79.0</u>	<u>84.2</u>	<u>80.8</u>	<u>3.4</u>	<u>4.2</u>	<u>5.2</u>	<u>6.6</u>
Subtotal	560.6	571.3	573.8	(2.5)	(.4)	10.7	1.9
Other Medicaid Enhancement Revenues to Fund Net Appropriations	<u>6.7</u>	<u>6.7</u>	<u>6.7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.0</u>
Total	<u>\$567.3</u>	<u>\$578.0</u>	<u>\$580.5</u>	<u>\$(2.5)</u>	<u>(.4)%</u>	<u>\$10.7</u>	<u>1.9%</u>

Revenues for the first five months of Fiscal Year 2003 are \$2.5 million below the plan derived from the current state budget, Chapter 130, Laws of 2001. Shortfalls to date are occurring primarily in Business Taxes at \$10.1 million, Meals and Rooms Taxes at \$8.6 million, Interest and Dividends Taxes at \$3.6 million, Communications Tax at \$3.1 million and transfers from Sweepstakes at \$3.0 million. These shortfalls are somewhat offset by increases over plan in the Insurance Taxes collections of \$4.9 million, Real Estate Transfer Taxes of \$8.5 million, and Tobacco Taxes of \$2.8 million. The recent closing of the sale of the Seabrook nuclear power station resulted in a real estate transfer tax payment of over \$6 million that is not reflected in November revenues, but is expected to be included in December revenues.

In connection with the following four paragraphs, see also the table entitled "General and Education Fund Balances Fiscal Years 2001-2003" on page 30 of the Information Statement.

On September 30, 2002, the Department of Administrative Services presented Fiscal Year 2002 unaudited financial statements to the Legislative Budget Assistant's Office. The State's audited financial statements are not expected to be publicly available until December 2002 or early January 2003. The unaudited information as of

September 30, 2002 indicated an aggregate shortfall of approximately \$23.5 million (as compared to the previous estimate of \$22.2 million) in the General Fund and a shortfall of approximately \$17.0 million (as compared to the previous estimate of \$17.2 million) in the Education Trust Fund for a combined deficit of approximately \$40.4 million. The earlier estimate for Fiscal Year 2002 was for a combined deficit of \$39.4 million.

As described in more detail in the Information Statement under the heading “STATE FINANCES – Health Care Fund,” the State is pursuing an appeal with the federal Center for Medicare and Medicaid Services (“CMS”), which, unless resolved in the State’s favor, would result in an additional charge against the Health Care Fund (“HCF”) of up to \$14.8 million for the current biennium. In connection with the preparation of the unaudited financial statements for Fiscal Year 2002, the Department of Administrative Services reduced the balance of the Health Care Fund (“HCF”) by \$11.8 million to an aggregate amount of approximately \$33.9 million. The State cannot now predict the outcome of this appeal.

On October 24, 2002, CMS deferred \$24.6 million of federal grant award for medical assistance in the Medicaid program. CMS challenged the State’s methodology used in the submittal for the period April 1, 2002 through June 30, 2002, requesting additional information from the State. The State has 60 days to respond to the deferral notice. The outcome of this matter is uncertain at this time. If the decision were unfavorable to the State the maximum exposure would be to set up an accounts receivable for one half of the \$24.6 million, or \$12.3 million, from the counties and the other \$12.3 million would reduce the State’s Fiscal Year 2002 balance by \$12.3 million. Further audit adjustments have been made to reflect additional federal, local and other reimbursements relating to the Health and Human Services medical assistance program. These reimbursements total \$11.8 million. Due to these matters and certain other adjustments, the combined unaudited deficit for fiscal year 2002 is now anticipated to be \$37.9 million.

The State cannot yet predict what impact, if any, these matters will have on the aggregate deficit for the current biennium. While it is possible that the aggregate deficit will be higher than the previous forecast of \$70.4 million, the State continues to believe that the aggregate deficit will not exceed the reserves the State currently has in the Revenue Stabilization Account and the HCF, which, taking into account the transfer from the HCF described above, currently total approximately \$89.1 million. However, the actual aggregate deficit will depend upon a number of factors, including revenue performance and expenditures for the remainder of the Fiscal Year 2003 and actions taken by the State during this fiscal year to address this matter.

## **STATE INDEBTEDNESS**

### **Agencies, Authorities and Bonded or Guaranteed Indebtedness**

*New Hampshire Business Finance Authority.* The Authority issued \$25 million State guaranteed bonds in November 1992, of which \$18.7 million remained outstanding as of April 1, 2002. In April 2002, the Authority issued \$10 million of State guaranteed bonds, \$5 million of which were used to refund an equal amount of 1992 bonds. The Authority issued an additional \$10 million of State guaranteed bonds in December 2002 to refund an equal amount of 1992 bonds. The Authority also redeemed \$1.2 million of 1992 bonds from available cash.

### **SCHOOL FUNDING**

On August 8, 2002, the State filed an objection to the plaintiffs' Motion for Attorneys' Fees. On September 17, 2002, the New Hampshire Supreme Court issued an order that the plaintiffs are entitled to an award of attorneys fees, but left it to the parties to negotiate the amount. The order provided that, unless the parties reached an agreement by October 31, 2002, the matter would be referred to a master for further action. On November 1, 2002, the plaintiffs notified the Supreme Court that the parties were unable to settle the claim for attorneys' fees and requested that a master be appointed. It is expected that a master will be appointed within the next month and that the matter will proceed to resolution within the next six months. The plaintiffs have submitted a request for approximately \$51,000 in attorneys' fees.

### **LITIGATION**

On November 25, 2002, the New Hampshire Supreme Court affirmed the Superior Court decision that ordered the State to provide plaintiffs with a refund of taxes paid on interest and dividends from out-of-state bank instruments only. The State estimates its exposure under this decision to be between approximately \$2.7 million and \$5.4 million, which amounts include interest. The State cannot predict whether the plaintiffs will file a petition for certiorari with the United States Supreme Court.

### **THE STATE OF NEW HAMPSHIRE**